

## Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 IO-11 ISO-00 SP-02 USIA-15 AID-05 EB-07

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CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 AGR-10 /128 W

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R 091510Z MAR 76

FM AMEMBASSY BERN

TO SECSTATE WASHDC 2250

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

USDEL MTN GENEVA

AMCONSUL ZURICH UNN

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF FEB. 29-MARCH 6

1. SUMMARY: DESPITE SOME FLUCTUATION, THE DOLLAR STRENGTHENED DURING THE WEEK. IN ANSWER TO PARLIAMENTARY QUESTIONS, FINANCE MINISTER CHEVALLAZ SAID THE GOS DOES NOT PLAN TO TAKE ANY NEW FOREIGN EXCHANGE MEASURES AT THIS TIME. INTEREST RATES CONTINUED THEIR GENERALLY DOWNWARD TREND AND STOCK PRICES ROSE. IN A SPEECH THIS WEEK, SNB PRESIDENT LE UTWILER WAS CRITICAL OF THE DECISION TO INCREASE IMF QUOTAS AND SAID SWITZERLAND WOULD BUY GOLD IF NEEDED

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TO STABILIZE THE MARKET. THE GOVT'S THIRD

ANTI-RECESSION PROGRAM WAS APPROVED BY THE UPPER HOUSE OF PARLIAMENT. CONSTRUCTION ACTIVITY AND RETAIL SALES DECLINED FURTHER IN JANUARY. DURING 1975 NEW CAR SALES AND THE PRODUCTION OF SWITZERLAND'S TWO PETROLEUM REFINERIES FELL.

#### FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: THE DOLLAR STRENGTHENED SHARPLY IN AN ACTIVE MARKET ON MONDAY (MAR 1) TO REACH A HIGH OF SF 2.5950 AT THE OPENING ON MARCH 2. THE DOLLAR'S RISE WAS ATTRIBUTED TO TECHNICAL FACTORS-- THE MARKET HAD OVERSOLD DOLLARS THE WEEK BEFORE--AND TO INDICATIONS THAT THE US ECONOMY WAS RECOVERING WELL. AFTER HOLDING MORE OR LESS STEADY IN QUIETER TRADING THROUGH THE MIDDLE OF THE WEEK, THE DOLLAR WEAKENED SLIGHTLY ON FRIDAY (MAR 5) WHEN THE POUND CAME UNDER HEAVY SELLING PRESSURE. THE GOLD MARKET WAS QUIET DURING THE FIRST FOUR DAYS OF THE WEEK BUT ACTIVITY AND PRICES INCREASED ON FRIDAY DUE TO CONCERN ABOUT DEVELOPMENTS IN RHODESIA AND SOUTH AFRICA. RATES AS FOLLS:

	3/1 (OPEN)	3/5 (CLOSE)
SPOT DOLLAR	SF 2.5620	SF 2.5875
FORWARD DISCOUNTS (PCT. P.A)		
ONE MONTH	- 3.6	- 3.8
2 MONTHS	- 3.7	- 3.7
3 MONTHS	- 3.9	- 3.9
6 MONTHS	- 3.9	- 3.9
12 MONTHS	- 3.5	- 3.6
SF/DM	SF 100.08	SF 100.55
GOLD	\$132.50	\$133.50

3. EXCHANGE CONTROLS: THE COUNCIL OF STATE (UPPER HOUSE OF PARLIAMENT) HAS APPROVED AN AMENDMENT TO THE SWISS FEDERAL BANKING LAW TO GIVE THE SNB PERMANENT POWERS TO INTERVENE IN THE FORWARD EXCHANGE MARKET. THE SNB WAS GIVEN SUCH POWERS ON A TEMPORARY BASIS BY AN EMERGENCY DEGREE IN 1971. IN ANSWER TO SEVERAL PARLIAMENTARY QUESTIONS, FINANCE MINISTER GEORGES-ANDRE CHEVALLAZ SAID THERE ARE NO "MIRACLE" SOLUTIONS TO THE PRESENT HIGH VALUE OF THE SF AND THAT THE FEDERAL GOVT DOES NOT PLAN TO TAKE ANY NEW FOREIGN EXCHANGE MEASURES AT THIS TIME.

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4. MONEY AND CAPITAL MARKETS: WHILE BOTH MARKETS REMAIN VERY LIQUID AND THE GENERAL TREND OF INTEREST RATES CONTINUES DOWNWARD, THE CALL MONEY RATE ROSE A BIT THIS WEEK FROM 0.25 PERCENT LAST FRIDAY TO 0.5 PERCENT ON MARCH 5. AN SNB SOURCE HAD NO EXPLANATION FOR THIS INCREASE ESCEPT TO SPECULATE THAT THE COMMERCIAL BANKS MAY ALREADY BE PREPARING FOR THE END OF QUARTER POSITIONING. MARKET ANALYSTS EXPECT INTEREST RATES

TO DECLINE FURTHER IN THE COMING WEEKS, GIVEN THE SUBSTANTIAL VOLUME OF FUNDS AVAILABLE AND THE LOW LEVEL OF DEMAND FOR CREDIT. AN INDICATION OF THIS TREND IS THE DECISION OF THE CANTONAL BANK OF BERN TO FIX THE COUPON ON ITS FORTHCOMING BOND ISSUED AT 5.5 PERCENT--THE LOWEST OFFERED FOR QUITE SOME TIME. A YEAR AGO THE SAME BANK HAD TO OFFER A RETURN OF 8 PERCENT. THE CANTONAL BANKS HAVE ARRANGED A PRIVATE PLACEMENT OF A SF 250 MILLION CONFEDERATION LOAN. THE PLACEMENT CONSISTS OF SF 40 MILLION IN SIX-YEAR BEARER CERTIFICATES WITH A COUPON OF 5.25 PERCENT AND AN ISSUE PRICE OF 99.75 PERCENT, AND 7-YEAR CERTIFICATES FOR SF 210 MILLION WITH A COUPON OF 5.5 PERCENT AND AN ISSUE PRICE OF 100.75 PERCENT. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS EASED LOWER FROM 5.29 PERCENT A WEEK AGO TO 5.27 PERCENT ON MARCH 5. STOCK PRICES IMPROVED AGAIN IN MODERATELY ACTIVE TRADING; THE SKA INDEX OF AVERAGE PRICES ROSE FROM 207.4 (END 1959 EQUALS 100) ON FEB 27 TO 210.6 ON MAR 5, THE HIGHEST LEVEL SINCE JUNE 1974.

5. BANKS PROSPERING: THE THIRD OF SWITZERLAND'S "BIG THREE BANKS," THE SIWSS CREDIT BANK (SCB), HAS NOW RELEASED ITS END-OF-YEAR STATEMENT. WHILE 1975 WAS NOT QUITE AS GOOD A YEAR FOR THE SCB AS IT WAS FOR THE OTHER TWO BIG BANKS (SEE BERN 916), IT WAS NOT BAD CONSIDERING STATE OF THE SWISS ECONOMY. DURING THE YEAR THE SCB'S BALANCE SHEET ASSETS ROSE 14.5 PERCENT TO REACH SF 36.8 BILLION AND NET PROFITS WERE SF 173.2 MILLION, UP 11.0 PERCENT.

6. SPEECH BY SNB PRESIDENT: SPEAKING AT THE THIRD INTERNATIONAL INVESTMENT CONFERENCE IN GENEVA, SNB PRESIDENT FRITZ LEUTWILER SAID THAT THE RAMBOUILLET DECISION TO CURB ERRATIC EXCHANGE RATE MOVEMENTS AND THE RESULTING GREATER COOPERATION AMONG CENTRAL BANKS HAVE IMPROVED THE PROSPECTS FOR GREATER EXCHANGE RATE STABILITY. IN THE PAST 14 MONTHS THE SNB HAS

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PURCHASED MORE THAN \$5 BILLION IN AN EFFORT TO STABILIZE THE SF. LEUTWILER STATED, HOWEVER, THAT THE FIRST PRIORITY IS INTERNAL

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INFO OCT-01 AF-06 IO-11 ISO-00 SP-02 USIA-15 AID-05 EB-07

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LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 AGR-10 /128 W

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FM AMEMBASSY BERN

TO SECSTATE WASHDC 2251

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

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PRICE STABILITY, AND THE SNB WILL NOT FOLLOW AN INTERVENTION POLICY THAT WOULD CREATE NEW INFLATIONARY PRESSURES. LEUTWILER WAS CRITICAL OF THE JAMAICA DECISION TO RAISE IMF QUOTAS AND TO SELL IMF GOLD. ALTHOUGH SWITZERLAND DOES NOT INTEND TO JOIN THE IMF IN THE NEAR FUTURE, LEUTWILER EXPRESSED THE FEAR THAT EXPANDED QUOTAS RISK AN INFLATIONARY INCREASE IN INTERNATIONAL LIQUIDITY. IN LEUTWILER'S VIEW LDC BALANCE-OF-PAYMENTS PROBLEMS MUST BE SOLVED, BUT THIS INFLATIONARY COURSE WILL CREATE MORE PROBLEMS THAN IT WILL SOLVE. WITH GOLD RESERVES OF ALMOST 2,600 TONS, THE SNB IS PARTICULARLY INTERESTED IN THE FUTURE PRICE OF GOLD. LEUTWILER STATED THAT SWITZERLAND DOES NOT INTEND TO DISPOSE OF ITS PRESENT HOLDINGS AND WILL UNCLASSIFIED

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NOT HESITATE TO BUY MORE GOLD IF THAT SHOULD PROVE NECESSARY TO MAINTAIN ORDERLY MARKET CONDITIONS. IN CLOSING, LEUTWILER SAID THAT WHILE RAMBOUILLET AND JAMAICA MADE A FEW STEPS TOWARD A STABLE INTERNATIONAL MONETARY SYSTEM, IT IS AN ILLUSION TO THINK THAT CURRENT PROBLEMS CAN BE SOLVED ON PAPER OR AT INTERNATIONAL CONFERENCES; STABILITY BEGINS AT HOME.

ECONOMIC

7. ANTI-RECESSION PROGRAM: THE FEDERAL COUNCIL'S THIRD ANTI-RECESSION PROGRAM (SEE BERN 267 AND 718) HAS BEEN APPROVED BY THE COUNCIL OF STATES (UPPER HOUSE OF PARLIAMENT) WITH ONLY ONE CHANGE. THE SF 100 MILLION REQUESTED FOR A 10 PERCENT FEDERAL SUBSIDY TO PUBLIC INVESTMENT PROJECTS UNDERTAKEN BY CANTONAL AND MUNICIPAL GOVTS WAS INCREASED TO SF 150 MILLION. THE TOTAL PROGRAM NOW INVOLVES FEDERAL GOVT SPENDING OF ALMOST SF 1 BILLION OVER THE NEXT 3 YEARS. PARLIAMENTARY DEBATE ON THE PROGRAM CENTERED ON CHARGES THAT IT DID NOT DO ENOUGH TO HELP SWITZERLAND'S HARD PRESSED EXPORT INDUSTRIES AND THAT THE SWISS-GERMAN CANTONS WERE GETTING MORE THAN THEIR SHARE OF THE BENEFITS. IN RESPONSE TO COMPLAINTS FROM LEGISLATORS REPRESENTING THE FRENCH-SPEAKING CANTONS, THE FEDERAL GOVT AGREED TO PREPARE AN ANNUAL REPORT ON THE AMOUNT OF ECONOMIC ACTIVITY GENERATED BY THE PROGRAM IN EACH CANTON.

8. CONSTRUCTION BUSINESS: THE SHARP DECLINE IN BUILDING ACTIVITY IN 1975 (SEE BERN 916) IS CONTINUING. ACCORDING TO OFFICIAL FIGURES, 680 DWELLINGS WERE COMPLETED IN JANUARY 1976--A DECLINE OF 65 PERCENT AS COMPARED WITH THE SAME MONTH IN 1975. THE NUMBER OF HOUSING PERMITS ISSUED IN JAN THIS YEAR WAS 850 OR 38 PERCENT LESS THAN A YEAR EARLIER. THE NUMBER OF PERMITS ISSUED IN JAN IS APPROX ONE-THIRD THE AVERAGE FOR THE PAST 5 YEARS.

9. RETAIL TRADE: RETAIL SALES IN JAN WERE DOWN 2.3 PERCENT IN VALUE AND 3.8 PERCENT IN VOLUME AS COMPARED WITH JAN 1975.

10. CAR SALES: THE NUMBER OF NEW AUTOMOBILES SOLD IN SWITZERLAND DURING 1975 TOTALLED 189,945 WHICH WAS DOWN 6.1 PERCENT FROM THE PREVIOUS YEAR AND 26.6 PERCENT LESS THAN WERE SOLD IN 1972.

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11. REFINERY PRODUCTION: THE TOTAL PRODUCTION OF SWITZERLAND'S TWO PETROLEUM REFINERIES DECLINED 22 PERCENT FROM 1974 TO 1975. DURING 1975 THE REFINERIES OPERATED AT 72 PERCENT OF CAPACITY. THE DROP IN OUTPUT WAS DUE TO A REDUCTION IN DEMAND FOR PETROLEUM PRODUCTS AS A RESULT OF THE CURRENT RECESSION AND AN INCREASE IN THE SHARE OF THE MARKET SUPPLIED BY IMPORTED REFINED PRODUCTS. THE REFINERIES' SUPPLY OF CRUDE CAME LARGELY FROM THE MIDDLE EAST (68 PERCENT) BUT WITH SIGNIFICANT AMOUNTS ALSO BEING SUPPLIED BY NIGERIA (19 PERCENT) AND NORTH AFRICA (13 PERCENT).

12. SNB STATEMENT OF ACCOUNT FOR FEB: SIGNIFICANT ENTRIES IN THE SNB'S TATEMENT OF ACCOUNT FOR FEB ARE SHOWN BELOW.

ALTHOUGH THE SNB ENGAGED IN SIZABLE INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET DURING FEB, THE REQUIRED CONVERSIONS OF CAPITAL EXPORTS AND FOREIGN EXCHANGE SOLD TO THE CONFEDERATION WERE EVEN LARGER, AND FOR EXCHANGES RESERVES DECLINED.

FEB 27 CHANGE FROM JAN 30

(MILLIONS OF SWISS FRANCS)

ASSETS

GOLD	11,893	--	
F/X	11,055	DOWN	264
ROOSA BONDS	5,403	--	
DISCOUNTED PAPER	256	DOWN	5
LOMBARD LOANS	277	UP	267
OTHER	758	DOWN	17

LIABILITIES

NOTES IN CIRCULATION	17,956	UP	44
GIRO ACCOUNTS	5,980	DOWN	715
RESERVES (FOREIGN LIABLS)	195	UP	18
OTHER	5,511	UP	634
BALANCE SHEET TOTALS	29,642	DOWN	19.

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## Message Attributes

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